Basic Accounting Terms for I. Com and B. Com

Business:

Any legal activity which is done/undertaken or performed for the purpose of earning profit on regular basis is called business.

Examples:

Book Shop, Cloth Depot, Garment Shop etc.

Accounting:

Accounting is an act/art of recording, classifying, summarizing the monetary transactions into significant manners and interpreting the result thereof.

Book Keeping:

Book keeping is the art of recording monetary transactions in the books of accounts in a proper manner.

Transaction:

A business event which can be measured in term of money and which must be recorded in the books of accounts is called a transaction.

Example:

Mr. A purchased/bought goods/furniture for business.

Cash Transaction:

If the value of a transaction is met in cash immediately it is called as cash transaction.

Example:

Furniture bought for cash.

Credit Transaction:

If the value of a transaction is not met in cash immediately it is called as credit transaction.

Example:

Furniture purchased on account or on credit.

Purchases:

In accounting language, the word “purchases” has special meaning when saleable goods are bought in a business is called purchases.

Cash Purchases:

If goods are purchased from a supplier on cash and payment is made to him at the same time is called as cash purchases.

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Credit Purchases:

If goods are purchased from a supplier and payment is not made to him at the same time, and payment is arranged to be made at some future date such purchases are called credit purchases.

Sales:

The goods are purchased for selling purpose, when these goods are sold to customers at specific price is called as sales.

Cash Sales:

If goods are sold to customer at a specific price, and price of goods sold received from them at same time is called as cash sales.

Credit Sales:

If goods are sold to a customer and he does not pay the price of goods sold at the same time but agrees to pay in future date is called as credit sales.

Goods or Merchandises:

Any thing which is purchased/bought in business for resale purpose or any thing which has been manufactured for selling purposes.

Stock:

Unsold goods in the business ready for sale is known as stock.

Purchases Returns/Returns Outward:

Once goods are purchased may be sent back to the seller due to some reason i.e, goods are defective, not according to specification and below standard such returns of goods by the buyer is called as purchases returns. It is also known as Returns Outward or returns to supplier.

Sales Returns/Returns Inward:

If a customer to whom goods have been sold finds that the goods are defective, damaged, below standard or unsatisfactory. He may return these goods to seller such returns of goods is called as sales returns. It is also known as Returns Inward or returns from customers.

Debtors:

Debtors are the persons or customers to whom goods have been sold on credit basis and money is receivable in near future. These are also known as accounts receivable.

Creditors:

Creditors are the persons or suppliers/sellers from goods have been purchased on credit basis and money is payable in near future. These are also known as accounts payable.

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Proprietor:

A person who invest capital, gives his time and attentions in a business is called as proprietor. He has right to receive profit or bear loss of business.

Accounting Principles:

Accounting principles defined as "Rules of action which are adopted by accounting universally while recording accounting transactions."

Accounting Concepts:

The term "concept" includes those basis assumptions or conditions on which the science of accounting is based.

Separate Entity Concept:

According to this concept "business is treated as separate entity from its owners."

Going Concern Concept:

According to this concept "it is assumed that the business will continue for an indefinite time period there is no intention to wind up business in foreseeable future."

Money Measurement Concept:

According to this concept "accounting records only those transaction which can be measured in terms of money."

Dual Aspect Concept:

According to this concept "for every debit there is an equal credit."

Matching Concept:

According to this concept "expenses are setting off against revenue."

Realization Concept:

According to this concept "revenue should be recognized at the time when goods are sold or services are provided."

Accounting Period Concept:

According to this concept "the life of business is divided into series of equal lengths of relatively short accounting periods for studying the results shown by the business.

Assets:

Assets are the things having certain value owned by a business and receivable by a business on a particular date.

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Examples:

Land and Building, Plant and Machinery, Furniture, Motor Vehicles, Cash etc.

Expenses:

Expenses are the cost of the goods and services used by the business in the process of obtaining revenues.

Examples:

Salaries, Rent of Building, Electricity bill paid etc.

Income:

It is a price of goods sold or services provided by a business to its customers.

Examples:

Rent received, commission received etc.

Liabilities:

The total amount which a business is legally bound to pay to the outsiders is called as liabilities.

Examples:

Creditors, Accounts Payable, Loan Borrow etc.

Capital:

It is the source of funds provided by the owner of business to start the business and expand the existing business.

Rules for Debit and Credit

Assets	**Increases**	**Decreases**
	Dr	**Cr**
Expenses	**Increases**	**Decreases**
	Dr	**Cr**
Income/Revenue	**Increases**	**Decreases**
	Cr	**Dr**
Liabilities	**Increases**	**Decreases**
	Cr	**Dr**
Capital	**Increases**	**Decreases**
	Cr	**Dr**

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Journal:

The book in which transactions are first of all recorded chronologically together with its narration is called "Journal". It is also called as "Original Book of Entry".

Journalizing:

The process of recording of a transaction in Journal is called "Journalizing".

Entry

Recording a transaction in the appropriate place of concerned book of account is called entry.

Narration:

A short explanation of each transaction written at the end of each journal entry is called as narration.

Simple Entry:

An entry in which one account is debited and other account is credited is called "Simple Entry"

Compound Entry:

An entry in which more than one account is debited or more than one account is credited is called "Compound Entry"

Double Entry System:

The system under which both changes in a transaction are recorded-one change is debit, while other change is credit with an equal amount.

Single Entry System:

A system in which sometimes both aspects of a transaction are recorded, sometimes only one aspect of a transaction is recorded and sometimes no aspects of a transaction is recorded is called single entry system.

Account:

Account is the individual record of an asset, liability, revenue, an expense or capital in a summarized manner.

Nominal Accounts:

Accounts which are related with expenses, losses and gains are called as nominal accounts.

e.g. Salaries, Loss by Theft etc.

Real or Property Accounts:

Accounts which are related with properties or things owned by a business are called as real or property account.

e.g. Land, Building, Furniture etc.

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Personal Accounts:

Accounts which are related with persons or institutions are called as personal accounts.

e.g.: Debtor's account, Creditor's account, Habib Bank etc.

Special Journal

A journal in which transactions relating to a special group is recorded called as Special Journal. Special Journal is sub divided into eight Journals.

Cash Book, Purchases Book, Purchases Returns Book, Sales Book, Sales Returns Book, Bills Receivable Book, Bills Payable Book, Petty Cash Book.

Cash Book:

A book in which all the transactions in which cash is involved (either cash paid or cash received) are recorded is called as Cash Book. It is also called as Cash Journal.

Purchases Book:

A book in which all the transactions related to purchases (only credit) are recorded is called Purchases Book. It is also known as Purchases Journal.

Purchases Returns Book:

A book in which all transactions related to purchases returns (only credit) are recorded is called Purchases Returns Book. It is also known as Purchases Returns Journal.

Sales Book:

A book in which all transactions related to sales (only credit) are recorded is called Sales Book. It is also known as Sales Journal.

Sales Returns Book:

A book in which all transactions related to sales returns (only credit) are recorded is called Sales Returns Book. It is also known as Sales Returns Journal.

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